

# Vacancy Inventory and Reinvestment Strategies for Reading, PA



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University of Pennsylvania  
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# Summary



In April-May 2004, the University of Pennsylvania's Fels Institute of Government completed a citywide inventory of vacant buildings and lots in Reading, Pennsylvania. The purpose of the inventory project, funded through grants provided to the City of Reading by the County of Berks and the Commonwealth of Pennsylvania Department of Community and Economic Development (DCED), was to provide Mayor Thomas M. McMahon and members of a Housing Task Force appointed by him with detailed information about the extent of property abandonment in Reading and to create a baseline of information that could be used as the basis for policymaking and strategic planning to address this issue in a systematic manner.

The vacant property inventory generated the following information.

- Vacant buildings and lots were identified on 425 blocks dispersed throughout many areas of the city.
- A total of 1,241 buildings and 174 lots were identified as vacant.
- The 1,241 vacant buildings identified through the inventory included 1,088 residential structures (mostly single-unit homes), 109 "mixed-use" properties (mostly storefront properties with one or more residential units upstairs), 26 small commercial or office properties, and 18 small industrial properties.
- Of the 422 blocks where vacant buildings were found, 232 (54.9 percent) of these blocks had only one or two vacant buildings. Of the 42 blocks where vacant lots were found, 26 (61.9 percent) of these blocks had only one or two vacant lots.
- Although the houses and mixed-use buildings included in the inventory were judged to be in need of major systems repair or replacement, most had no evidence of structural or roof damage, vandalism, fire damage, or advanced deterioration.
- Most other blocks in the city were found to have no vacant properties; vacancy was almost nonexistent in the far northeastern and far northwestern areas of the city.

To address the problem of property vacancy in Reading, the Fels Institute recommends the continuation of two current activities— 1) the rehabilitation and resale of recently-vacated, federally insured foreclosure properties and 2) the demolition of vacant buildings on small streets that contain high concentrations of abandoned properties—combined with a series of new program initiatives. The proposed program initiatives include:

- Improving the City of Reading’s code enforcement capacity, so that municipal government can prevent future vacancy by addressing property deterioration at an early stage;
- Establishing better capability to use blight certification and redevelopment plan designation as a mechanism for vacant property acquisition in targeted areas;
- Using available federal funding more effectively;
- Strengthening housing counseling resources in order to create better-prepared, responsible homebuyers;
- Helping current homeowners avoid mortgage default and foreclosure by providing more default and delinquency counseling, and working with lending institutions to forestall foreclosure when feasible;
- Offering settlement assistance grants as a homebuyer incentive and as a way of encouraging the use of pre-purchase housing counseling services;
- In partnership with large and small local businesses, co-sponsoring employer-assisted housing programs in order to encourage people who work in the city to move into or remain in Reading;
- With lending institutions, making available low-interest home improvement loan financing as a way of encouraging current owners to undertake home repair and modernization projects and creating an attractive alternative to loan products promoted by sub-prime lenders;
- Supporting the development of a large-scale, new construction sales housing venture designed to attract “market rate” homebuyers to an appealing location in the city; and
- Promoting increased City/County collaboration to more effectively use available information, funding, and staff resources to address neighborhood development and service issues.

Although these proposed strategies would involve some major changes in the activities of government, civic, and nonprofit agencies, none of them involve the reduction or elimination of existing housing programs, none of them would threaten the financial stability of existing housing development and service organizations, and none of them would require a major overhaul of public agencies. With appropriate leadership and management, all of the strategies proposed can be implemented this year.

This report is intended to provide new information about the issue of vacant property in Reading and to stimulate planning, dialogue, and debate about how best to organize available resources to address this issue as an economic development priority for the city and its neighborhoods.





# I. Where Do Vacant Properties Come From?



## **Success and Failure**

Every vacant property represents a failure of the real estate market in the neighborhood where it is located.

In a successful real estate market:

- Property values increase steadily;
- Homebuyers with good credit and access to financing are attracted to available for-sale houses;
- Residential and commercial investment properties are fully-occupied and well-managed;
- Owner-occupied homes are well-maintained, and many home repair and modernization projects are successfully completed by homeowners every year,

In a failing real estate market:

- Property values stagnate or decline;
- An increasing number of homebuyers are not “creditworthy” or are not well prepared for the responsibilities of homeownership, and mortgage foreclosure becomes a chronic problem;
- The deterioration and partial or total abandonment of investment properties becomes increasingly evident;
- The deterioration of owner-occupied housing is a significant problem, and some lower-income homeowners in search of affordable home repair financing lose their properties to predatory lenders.

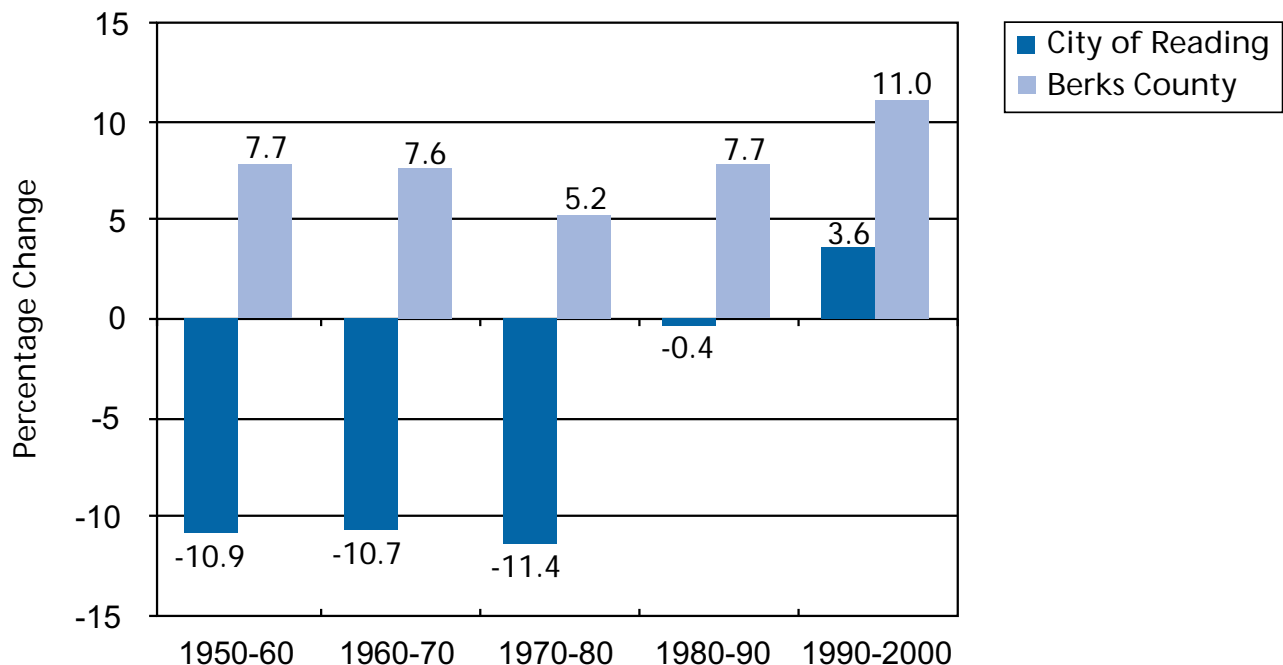
All of the characteristics of failing real estate markets—the stagnation or decline in housing values, the proliferation of mortgage foreclosures, the mismanagement of investment properties, and the deterioration of owner-occupied properties—are causes of property vacancy.



## Neighborhood Housing Markets in Older Cities

Reading is similar to other older cities that had become well known as manufacturing centers during the nineteenth and early twentieth centuries, but that lost many businesses, jobs, and people during recent decades. When companies move or go out of business, a city's employment base declines and the local economy weakens. With fewer employment opportunities available, some residents follow the jobs and move out, further weakening the city's economy. As business loss, job loss, and population decline continue, neighborhood property values stagnate or decline. Every year, people who can afford to do so move to the suburbs or leave the region, and not enough people move into the city to occupy the increasing number of available houses.

Percentage Changes in Population  
Reading and Berks County



Source: U.S. Census

In cities where these trends emerge, the following results often occur.



- For-sale housing remains unsold for months or years, as continued population loss increases the oversupply of housing;
- Unoccupied housing deteriorates or is vandalized, producing uninhabitable vacant properties; and
- The condition of some of these properties becomes hazardous, and subsequent demolition produces vacant lots on blocks that had previously been fully occupied.

As the number of low- and moderate-income residents grows, the city's affordable housing needs increase. Single-family homes are subdivided for rental occupancy, and rental property overcrowding and deterioration become serious

problems. Some homebuyers who encounter difficulty qualifying for mortgage financing enter into sales contracts without proper preparation and find themselves experiencing default and foreclosure not long after moving into houses where they had intended to live for a lifetime. Some homeowners in search of financing for needed repairs are attracted to "bad-credit/no-credit" financing promoted by predatory lenders, and many of them also experience loan defaults and foreclosures. Other homeowners who encounter an unexpected emergency—such as job loss or a serious illness or disability affecting a family member—suffer a significant decrease in income, a significant increase in expenses, or both, and are unable to obtain assistance in addressing these problems.

All of these factors contribute to the problem of property vacancy. Because this problem is multi-faceted, no single solution—no "magic bullet"—exists that will make failing real estate markets successful again. A combination of strategies needs to be organized and implemented in a coordinated manner over an extended period in order to stabilize and strengthen neighborhood real estate markets that have experienced decades of economic disinvestment.



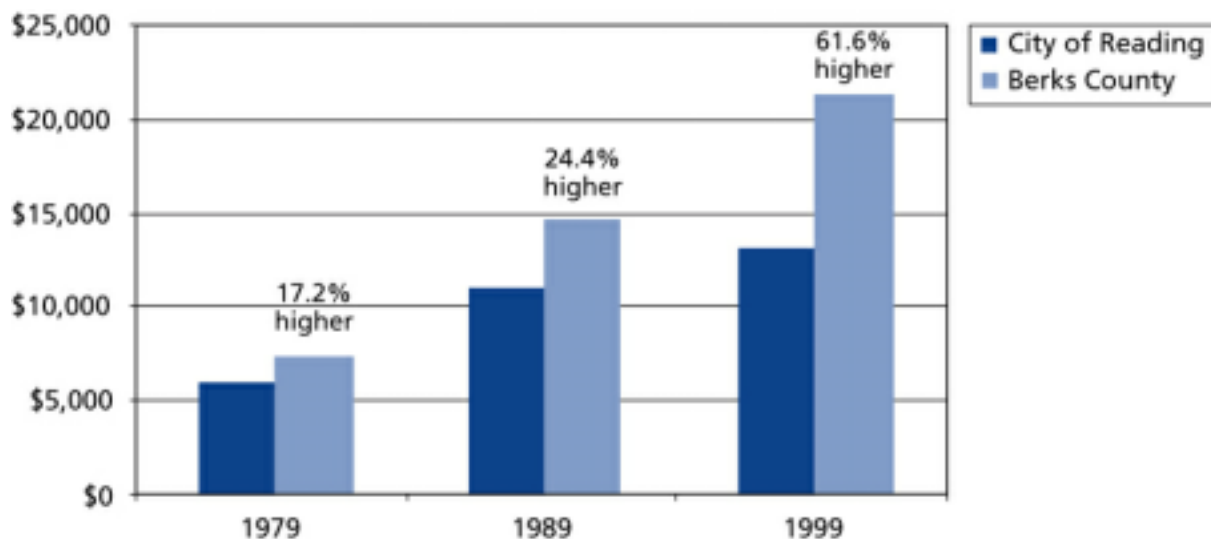
## Reading's Biggest Challenge

The biggest challenge facing Reading—and the key to solving the problem of vacant, abandoned housing in the city's neighborhoods—is the need to correct the economic imbalance that has resulted from the city's loss of middle-class families during the past half-century.

Most people agree that the best communities are diverse neighborhoods where a variety of residents live and interact comfortably together—homeowners and renters, families with children and elderly people—residents who together represent a variety of family backgrounds, ages, and income levels.

Although Reading used to be a city of diverse communities, many of Reading's neighborhoods are now out of balance because they have too few middle-income residents. Reading has always been home to many individuals and families whose incomes were lower than the regional median income. What has changed over the years is that the proportion of lower-than-median income residents has increased while the proportion of residents at or above median income has declined. The community diversity that once attracted many people to Reading has been substantially weakened or lost in many neighborhoods across the city.

**Changes in Per Capita Income  
Reading and Berks County**



Middle-income residents are also critically important to the city's economic development because the taxes they pay help support the cost of city services provided by the Police Department, Fire Department, and other agencies, as well as the cost of supporting an expanding public school system. Reading cannot succeed in the twenty-first century without a strong municipal tax base supported by a high level of middle-income residents.

Reading will never become an exclusively upper-class enclave, like the gated communities and new towns that have appeared in the outer suburbs of some metropolitan areas; and Reading cannot survive as a city that consists entirely of low- and moderate-income individuals and families. The city's future, and the future well-being of Reading's neighborhoods, depend on increasing the level of middle-income residency in order to correct the imbalance that currently exists.

There are three ways to do this.

1. Convince more people who live outside of the city or region to move into Reading;
2. Persuade middle-income residents who currently live in Reading to stay here; and
3. Help Reading families currently living at poverty level to move into the middle class through better education and job training and improved access to job opportunities in the city and region.



## The Importance of Income and Education

The need for cities such as Reading to attract and retain middle- and upper-income people is underscored by the findings published in *The Changing Dynamics of Urban America* by Robert Weissbourd and Christopher Berry, a study sponsored by CEOs for Cities (report available at [www.ceosforcities.org](http://www.ceosforcities.org)). Through an analysis of "the critical factors that accounted for economic growth in American cities in the 1990s," Weissbourd and Berry reached the following conclusions.

- *For the first time in modern history, population and income growth no longer tend to go together.* Attracting more people to cities is not as important as increasing per capita income, with or without population growth.
- *Educational levels were found to be the single biggest driver of economic growth, but high school degrees are not enough.* In cities evaluated by the authors of the study, income growth increased by about one percent for each two percent growth in the proportion of college graduates.

As the table below indicates, Reading and other smaller cities were not successful in addressing this opportunity during the 1990s. In order to support improved performance in the future, Reading needs to 1) better prepare current children and young adults who live in the city to become college graduates; 2) persuade recent graduates of area colleges to move to or stay in Reading; and 3) attract and retain more residents of varying age levels who also happen to be college graduates.

**College Graduates as Percentage of Over-25 Population  
Allentown, Lancaster, Reading**

	<u>1990</u>	<u>2000</u>	<u>% change</u>
Allentown	20.9	15.4	-26.3 %
Lancaster	16.5	14.0	-15.2 %
Reading	12.2	8.6	-29.5 %

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Source: U.S. Census

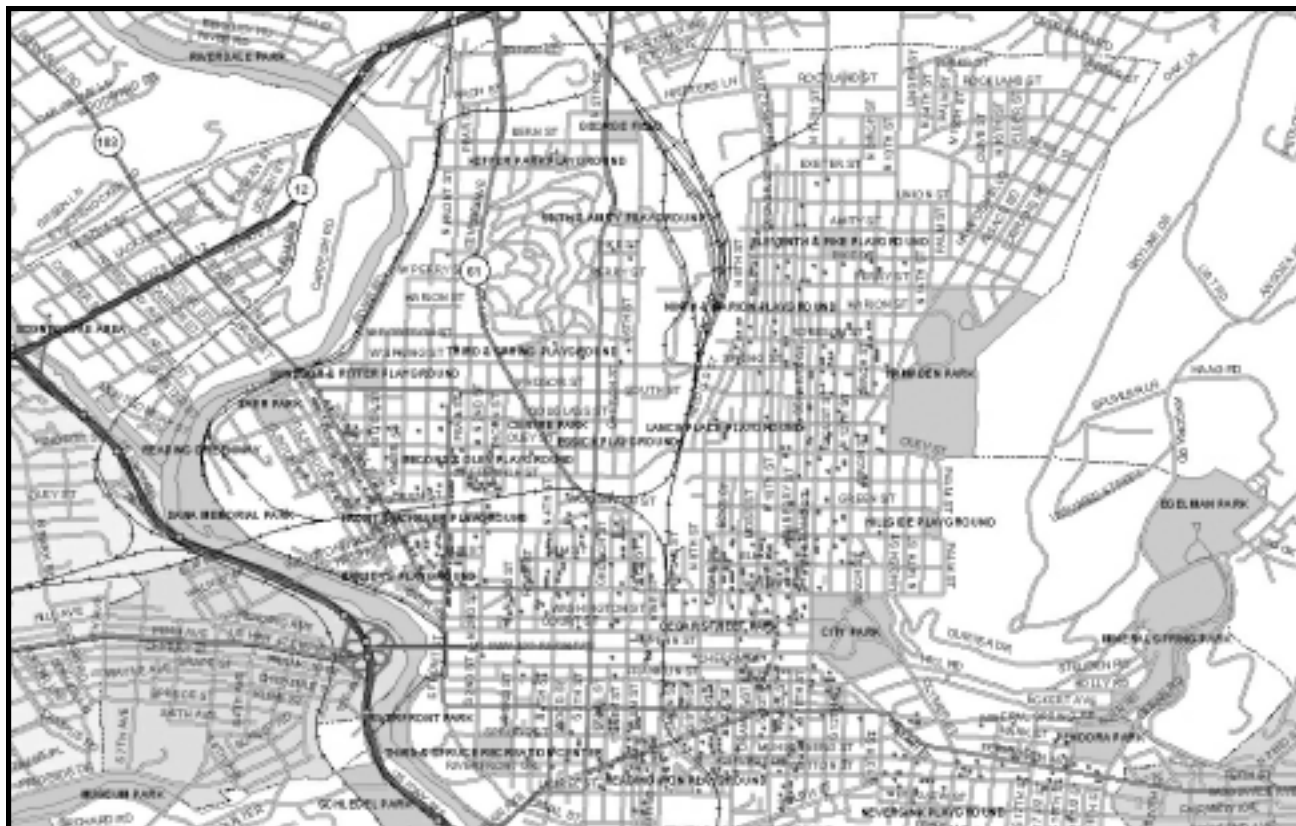
*Cities no longer share a common fate: the rich get richer.* In past decades, poorer cities tended to “catch up” with more successful cities over time. Data studied by Weissbourd and Berry indicates that this pattern has changed in recent years, during which successful cities such as San Francisco and New York became more successful while underachieving cities continued to lag behind. As the authors put it, “Being on the right path—and selecting the right development strategy for that path—is more important than ever.”

During the remainder of 2004 and in the years that follow, Reading will need to make some fundamental choices about how best to identify and pursue the development strategy that is “right” for the city and its neighborhoods. Some elements of a proposed strategy are outlined at the end of this report.





## II. Reading's Vacant Property Supply



Strategies for addressing vacant property issues must be based on in-depth knowledge of existing conditions. To help create a base of knowledge about Reading's vacant property supply, Mayor McMahon asked the Fels Institute of Government to produce Reading's first citywide vacant property inventory. This inventory was completed during a five-week period in April and May 2004.

## **Methodology**

To complete this inventory, the Fels Institute surveyed every block in the city in order to identify the addresses of existing vacant buildings and lots and to create a data base that could be made available to City and County agencies and the general public. The survey methodology included the following elements.

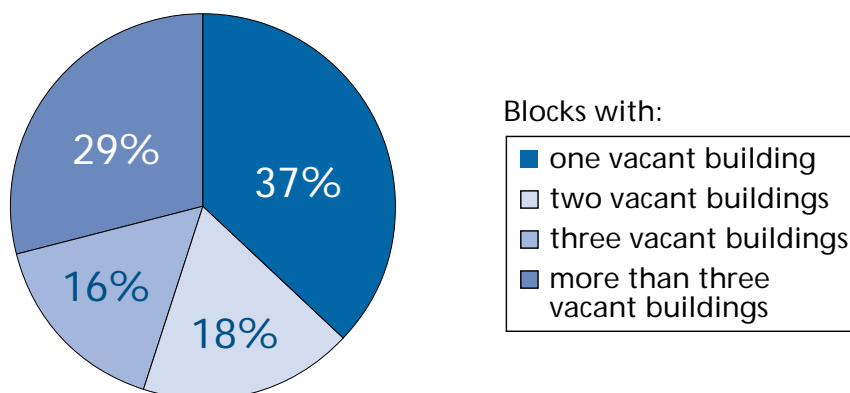
- Survey participants identified the addresses of vacant houses, mixed residential/commercial properties, small commercial and industrial properties, and small or medium-sized "infill" vacant lots.
- Large commercial and industrial properties and large paved lots were not included in the survey.
- Buildings included in the survey were empty (or appeared to be empty) and in need of the repair or replacement of one or more major systems (such as plumbing, electrical, or heating systems) in order to meet city code standards.
- Although some of the buildings identified as vacant in terms of these criteria are properties that are posted for sale or for rent, for-sale and for-rent properties that appeared to be in "move-in" condition were not included in the inventory. The reason for excluding the latter was to ensure that the inventory focused on properties that had been abandoned or that were in danger of abandonment due to a combination of vacancy and deterioration. An empty house in good condition that is being marketed for sale or rent is not necessarily in danger of abandonment, and the inclusion of such properties, in the view of the Fels Institute survey team, would overstate the extent of vacancy and abandonment in Reading.
- Each vacant lot address was counted as a separate vacant lot; for example, a cleared site that consisted of three adjacent legal addresses was counted as three vacant lots.

## Results: Citywide Data

The following information was gained through the completion of the citywide inventory.

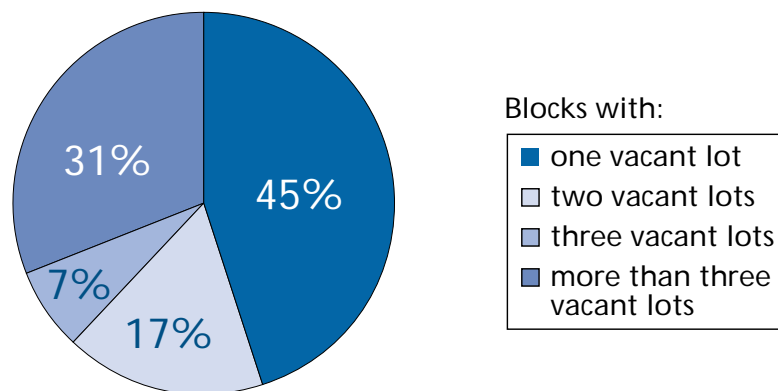
- The survey team identified a total of 1,241 vacant buildings and 174 vacant lots on blocks dispersed throughout many areas of the city.
- The vacant buildings included 1,088 residential properties (mostly single-family homes), 109 “mixed-use” properties (mostly storefront properties with one or more residential units upstairs), 26 small commercial or office properties, and 18 small industrial properties.
- Vacant buildings were identified on a total of 422 blocks in Reading. Of these blocks, 155 had only one vacant structure, 77 had only two vacant structures, and 66 had three vacant structures.
- 124 blocks had more than three vacant buildings. On the blocks with the highest concentrations of vacant buildings, demolition activities are planned or currently under way.

**Vacant Building Dispersion Patterns  
on Blocks where Vacant Buildings were Identified**



- Although the houses and mixed-use buildings included in the inventory were judged to be in need of major systems repair or replacement, most had no evidence of structural or roof damage, vandalism, fire damage, or advanced deterioration.
- Of the vacant buildings identified, 78 were posted for sale (as indicated above, for-sale properties that appeared to be in move-in condition were not counted).
- Vacant lots were identified on a total of 42 blocks in Reading. Of these blocks, 19 had only one vacant lot, 7 had only two vacant lots, and 3 had three vacant lots. As indicated above, each vacant lot address was counted as a separate vacant lot; for example, a cleared site that consisted of three adjacent legal addresses was counted as three vacant lots.

**Vacant Lot Dispersion Patterns  
on Blocks where Vacant Lots were Identified**



- Other blocks in the city were found to have no vacant properties; vacancy was almost nonexistent in the far northeastern and far northwestern areas of the city.

## The Quality of Reading's Vacant Property Inventory

The survey process confirmed that vacant properties in Reading—particularly vacant houses and mixed-use storefront properties—are in much better condition than the vacant structures that can be found in many older cities, where property deterioration and vandalism have in many cases made rehabilitation cost-prohibitive, leaving demolition as the only feasible option. In Philadelphia, for example, a 1997 study contained an estimate that approximately two-thirds of the city's vacant houses were too deteriorated to rehabilitate and would need to be demolished. Starting in 2001, demolition activity and site assemblage for future new construction became a major element of Philadelphia Mayor John F. Street's Neighborhood Transformation Initiative.

In contrast to cities such as Philadelphia, the vast majority of vacant houses in Reading are structurally sound, have intact roofs and drainage systems (i.e., functioning gutters and downspouts that reduce the danger of water damage), are not fire-damaged or vandalized, and do not require a "gut rehab" treatment (i.e., interior demolition and replacement of all major systems as well as walls, stairs, and floors) in order to be made habitable and marketable. In many instances, the relatively good quality of vacant houses in Reading made it difficult for survey team members to determine whether or not a particular property was actually empty.



Demolition will need to be part of the solution to Reading's vacant property problems, and the clearance of undersized properties on narrow streets will continue to be an appropriate approach for some blocks. However, the "good news" for Reading is that many vacant properties can be rehabilitated and made ready for reoccupancy at a moderate cost—in some instances, with little or no subsidy.



The potential "bad news" for Reading is that, without a well-organized plan to address vacant property issues systematically, vacancy and abandonment is likely to increase during the coming years, and—unless such an approach is implemented effectively—more of the vacant buildings in Reading will become as deteriorated as those which are common in other older cities that are currently struggling with this problem.

## Reading's "Curb Appeal"

Despite the evidence of economic disinvestment that exists today, Reading has many appealing characteristics that can be made part of an ambitious strategy for promoting the city's neighborhoods as great places to live. These positive characteristics include the following.

- An accessible downtown with an attractive traditional "Main Street" layout—unlike other downtowns where poorly-conceived redevelopment projects have downgraded the urban environment.
- A wide variety of housing types—from row houses to large detached homes on big lots—with many well-maintained historically noteworthy buildings.
- Appealing natural features—the river, parks, and wooded areas—and a hilly topography that offers broad views of the city from many residential blocks.
- Many neighborhoods that provide a safe, pleasant environment for families, where small children play in front yards while young adults and grown-ups socialize on porches and sidewalks.
- Throughout the city, many well-maintained occupied houses on stable blocks, with evidence of owner improvements such as painting, repairing, or modernization projects.

Reading has critical problems: many vacancies in the downtown area; some residential blocks overwhelmed by vacant houses and lots; abandoned or mostly-vacant factories; graffiti; and evidence of drug sales and other criminal activity. However, the city's positive qualities should not be overlooked. Despite past setbacks, the city and its neighborhoods have an attractive appearance and "curb appeal" that many other cities lack. These appealing characteristics can be promoted effectively to encourage more people to move to, work in, and stay in the city during the coming years—provided that some of Reading's most serious problems are addressed at the same time.





### III. Neighborhood Reinvestment Opportunities



*Undersized houses on deteriorated narrow streets*

The results of the citywide inventory bring into focus some opportunities for using available resources to stimulate neighborhood reinvestment, based on the extent of housing vacancy and the strength of neighborhood real estate markets in each area of the city.

The highest concentration of vacant buildings and lots was found on narrow streets with small row houses and commercial/industrial properties that the City and County have already targeted for demolition and vacant land assembly for future development.



In these and other areas with similar characteristics, demolition and site assemblage activities should continue. Before conveying cleared parcels individually for uses such as side or rear yards, public agencies and community members should explore the prospects for consolidating these parcels into larger development sites.



*Deteriorated mixed-use and residential corridor segments*

The second highest concentration of vacant buildings and lots was found on corridors such as Schuylkill Avenue, and on sections of North Ninth Street, North Tenth Street, North Eleventh Street, and parallel narrow streets such as Moss Street.



The City should support planning and decision-making to determine the future identity of Schuylkill Avenue and high-vacancy segments of other corridors. How much demolition should take place on these corridors, and what type of development should take place on the resulting cleared parcels? Given the weakening of demand for retail services that has occurred over the years, what should be done with vacant storefront properties? Are institutional or service agency uses feasible for some vacant properties? The responses to these and other questions should guide future property acquisition, site preparation, and development activity on these corridors.





Substantial vacancy was found in every area adjacent to Reading's downtown. In this respect, Reading is similar to many older cities, where deteriorated "inner ring" neighborhoods can be found in close proximity to downtown centers



As revitalization plans are implemented downtown, neighborhood revitalization plans should be organized and launched in these adjacent neighborhoods. The goal should be to establish priorities for blight removal, systematic code enforcement, demolition of dangerous buildings, and rehabilitation of occupied and vacant houses to city code standards. Representatives of public agencies, local businesses, neighborhood institutions, and civic and community organizations should work together to identify these priorities and related action plans for the improvement of these areas





In contrast to the “inner ring” areas and the small streets and corridors where vacancy is high, a number of areas of the city could be defined in terms of clusters of blocks where vacancy is relatively low and where vacant buildings and lots are dispersed over an otherwise fully occupied area. This quality is characteristic of some of the city’s strongest real estate markets, such as that which exists in the Centre Park neighborhood, as well as in the southwest and in other areas where sales prices and market values are lower.



Investment in these areas can be encouraged through the promotion of low-interest financing for the repair and modernization of owner-occupied housing, through homebuyer incentives, and the rehabilitation of vacant houses that can be rehabilitated and sold for owner-occupancy at a higher price level than would be possible in more deteriorated areas of Reading.



*Riverfront development opportunity areas*

In planning for the future, it would be worthwhile to consider housing and retail development opportunities associated with some properties in the area adjacent to the Schuylkill River, from the south end of the Reading Area Community College campus to the foot of South Sixth Street. Although a substantial amount of light-industrial and commercial development is likely to take place in this area during the coming years, residential/retail ventures may prove successful on some sites. This area may offer the strongest potential for new market-rate housing development in the city, and opportunities to take advantage of this potential should be pursued as an economic development priority for Reading.







Although vacancy was almost nonexistent in the far northeastern and far northwestern areas of the city, low-interest home improvement financing and homebuyer incentive programs would reinforce the relatively strong real estate markets in these areas and stimulate continued appreciation of property values.





## IV. A Foundation for Future Reinvestment



## The Need for a Broader Approach

In past decades, many cities have pursued one or both of two strategies to address the problem of vacant property.

1. *Demolition* to remove hazardous buildings in danger of collapse or to assemble cleared sites for new development; and
2. *Rehabilitation* of vacant structures, by for-profit or nonprofit organizations under contract with government agencies, for subsequent sale or rent.

Although both of these strategies have been implemented in Reading, exclusive reliance on these strategies alone will not produce a stronger citywide real estate market and reverse the trend of economic disinvestment that Reading has experienced for years.

- Most vacant structures in Reading are not in danger of collapse and are not properties that are being considered for investment and development. Although demolition should continue to be pursued when needed to eliminate hazards or support site assemblage for development ventures, demolition that is random and not linked to investment on the resulting cleared sites will only produce a new generation of unsightly vacant lots and reduce the prospects for repopulating the city's existing housing inventory with a larger proportion of middle-income residents.
- In a weak real estate market, vacant house rehabilitation requires government subsidy—and there isn't enough public funding available to support the rehabilitation of all the city's vacant houses. Based on recent experience, it is estimated that an average public subsidy of \$25,000 is needed to make up the difference between the cost of rehabilitating many vacant houses in the city and the amount for which the rehabilitated property could be sold under market conditions that currently exist in Reading. At this level of per-unit subsidy, \$27,200,000 in public funding would be needed to support the rehabilitation of Reading's 1,088 vacant houses. This amount is about 26 times the size of the City's annual grant award through the federal Home Investment Partnerships Program (HOME), the funding source which the City has used to subsidize most housing rehabilitation in recent years.

These limited strategies need to become part of a broader and more ambitious new approach for strengthening the city's real estate markets and eliminating vacant property. To support an ambitious reinvestment approach and generate greater economic benefit for Reading and its neighborhoods, a strong organizational foundation needs to be established. Three issues that should be addressed in Reading in order to strengthen this foundation for future reinvestment are code enforcement, property assembly, and the more effective use of federal funding resources.

## **Preventing future vacancy through code enforcement**

Prevention strategies are an essential part of a citywide plan for reversing the cycle of property deterioration and abandonment. The most important prevention strategy is code enforcement, performed by government agencies responsible for issuing building permits, inspecting construction work in progress, issuing citations to property owners in violation of housing and building codes, and intervening when necessary (through actions such as sealing up or demolishing a dangerous structure) to respond to a hazardous condition.

Code enforcement in Reading should focus on several areas of activity.

- Making the process for reviewing builder's and developer's plans and issuing building permits more efficient and timely.
- Educating developers and property owners about "smart" rehabilitation codes that give more flexibility to projects involving small-scale rehabilitation of older buildings, in order to reduce rehabilitation costs and encourage preservation activity.
- Conducting systematic property inspections in order to ensure that every property in the city is inspected periodically as part of an ongoing citywide work plan.
- Through coordination with housing agencies, providing low- or no-cost financing to responsible property owners in need of funding for repairs or improvements to correct code violations.
- Using government authority when appropriate to seize, repair, or demolish vacant properties in order to eliminate hazardous conditions.

Other Pennsylvania cities have already made code enforcement a top priority and have been implementing activities similar to these for years. Reading should also do so without delay.

## **Property Assembly to Support Targeted Reclamation Activities**

In areas where significant clusters of vacancy exist, it is likely that public intervention will be required in order to acquire abandoned properties, rehabilitate vacant buildings that are suitable for preservation, and demolish other structures that are infeasible for rehabilitation in order to support site assemblage for future development. In these places, such interventions will be most effective if supported through the designation of targeted areas as redevelopment areas within which specified properties—including some properties which may not be tax delinquent and, in some cases, occupied properties remaining on otherwise vacant blocks—may be acquired in order to implement a redevelopment plan.



To make property assembly activities in Reading as efficient as they need to be, the Redevelopment Authority, with appropriate support from other departments, needs to position itself to conduct blight certification, redevelopment area designation, urban renewal takings, and the delivery of relocation services as needed in order to support reclamation activities in some of the city's most deteriorated areas.

## More Effective Use of Federal Funding Resources

Although the attraction and retention of middle- and upper-income residents should be regarded as a high priority for Reading, the need to create and sustain affordable housing resources for low- and moderate-income residents should not be overlooked. The first step in responding to this need is to make more effective use of funding provided to the City each year by the U.S. Department of Housing and Urban Development (HUD). Two HUD-supported activities should be given particular attention.

*CDBG Program.* The Community Development Block Grant (CDBG) provides annual funding to the City of Reading which may be used for a variety of program and service activities. In past years, Reading has devoted very little of its CDBG funding to support affordable housing activities, such as real estate acquisition, housing development, and home repair. A comparison of CDBG-funded housing expenditures by the City of Reading in comparison to the housing expenditures by three other Pennsylvania cities during two recent program years illustrates this fact.

### Percentage of CDBG Funds Spent on Housing Activities 2001 and 2002 Program Years

	Housing Expenditures as a Percentage of Annual CDBG Grant	
	2001	2002
Allentown	30.2 %	24.4 %
Harrisburg	42.4 %	29.5 %
Lancaster	30.0%	24.3 %
Reading	2.4 %	0

*City/Housing Authority Collaboration.* Reading is fortunate to be a city in which municipal government agencies work in collaboration with the local Housing Authority, the “quasi-public” entity that receives funding from HUD to develop, own, and manage public housing. In Reading, the Housing Authority’s willingness and capability to undertake housing development and service activities in collaboration with the City and local nonprofit organizations can provide significant added value to an ambitious reinvestment approach. The City and the Housing Authority should continue to pursue opportunities to work together in supporting the specific strategies proposed in the next section of this report.



## V. Proposed Reinvestment Strategies



To address conditions of property deterioration, vacancy, and abandonment in Reading, the Fels Institute recommends the following strategies for further consideration. Although these proposed strategies would involve some major changes in the activities of government, civic, and nonprofit agencies, none of them involve the reduction or elimination of existing housing programs, none of them would threaten the financial stability of existing housing development and service organizations, and none of them would require a major overhaul of public agencies. With appropriate leadership and management, all of the strategies proposed can be implemented this year.

### **Preventing Future Vacancy through Housing Counseling**

Every month, more than a dozen homes in Reading are lost to foreclosure and risk becoming additions to the city's vacant property inventory. Housing counseling, a service performed by trained professional staff working at independent nonprofit organizations, has proven to be effective in significantly reducing foreclosure levels in many cities.

Two kinds of housing counseling services need to be made available in Reading on a large scale.

1. *Pre-purchase counseling* to educate homebuyers about the responsibilities of homeownership and to provide prospective buyers with assistance in considering the choice of a house type and neighborhood, clearing up credit problems in order to achieve "creditworthy" status, reviewing the agreement of sale and other documentation, learning about available mortgage products, completing a pre-purchase inspection, and preparing for mortgage settlement.
2. *Default and delinquency counseling* to help current homeowners in danger of losing their homes stabilize their financial condition and retain ownership and equity.

The most effective citywide housing counseling programs have the following qualities.

- Counseling staff are well-trained, experienced, and comfortable working with a diverse client population.
- Prospective homebuyers begin pre-purchase counseling before signing an agreement of sale.
- A pre-settlement property inspection is completed by a qualified inspector and any conditions requiring correction are addressed prior to mortgage settlement.
- Most clients do not enter into lease-to-own agreements or second-mortgage agreements (other than self-amortizing “soft” second mortgages associated with government programs).
- No clients complete counseling until they are creditworthy—able to obtain mortgage financing and pay related costs.

For some prospective homebuyers, the credit repair process can take months—but the time spent is worth it, both to the clients and the city at large. Reading needs prepared homebuyers at all income levels. Clients who are not financially prepared should continue as renters until they are ready to take on all the responsibilities of homeownership.

### **Incentives to Buy: Settlement Assistance**

Prevention programs should be complemented by a series of financial incentives that are offered to individuals and families at the low- moderate-, and middle-income levels.

A *settlement assistance* grant, used to pay a portion of the homebuyer's share of the fees charged at mortgage settlement, should be made available to homebuyers who successfully complete pre-purchase counseling provided by a City-approved agency. The grant comes in the form of a check issued to the mortgage lender and credited to the buyer at the settlement table.

During the 1990s, Philadelphia's settlement assistance grant program brought more than 14,000 counseled, creditworthy homebuyers to the single-family sales housing market. No one knows what the impact of a similar program might be in Reading—but now is the time to explore this opportunity.

### **Incentives to Buy: Employer-Assisted Housing**

Companies doing business in Reading, as well as the County of Berks and institutions such as Reading Area Community College, should be encouraged to offer their employees incentives to move to or remain in the city. One way to do this is through government-sponsored *employer-assisted housing* programs, in which financing is offered to employees who buy or improve homes in the city.

An employer-assisted housing approach for Reading might be structured to include two elements.

1. For *homebuyers* not currently living in Reading, a publicly-funded cash payment, issued at mortgage settlement, which is matched on a dollar-for-dollar basis by the buyer's down payment, the buyer's settlement charges, and/or by funding provided by the buyer's employer. The cash payment may be used to reduce the mortgage balance or to pay for home improvements.
2. For *homeowners* already living in Reading, a publicly-funded cash payment which is matched on a dollar-for-dollar basis by a home improvement loan, a homeowner cash equity contribution, and/or funding provided by the buyer's employer. The cash payment and the matching funds must be used to finance a home improvement project involving exterior repairs or improvements such as porch repair, exterior painting, window/door repair, and the installation of porch or yard lighting.

In West Philadelphia, an employer-assisted housing incentive program sponsored by the University of Pennsylvania resulted in several hundred home purchases and home improvement projects, producing a substantial increase in sales housing values and making University City one of Philadelphia's hottest housing markets. Could positive results be achieved through the implementation of a similar approach in Reading? To find out, a test of this approach could be launched this year.

### **Incentives to Repair: The Area's Best Home Improvement Loan Deal**

Government agencies should work with area banks to create the most attractive home improvement loan product available: bank-administered loan financing supplemented by public funding to buy down the interest rate to a low single-digit level—possibly to one percent. The new home improvement loan would be made available to homeowner-occupants in the city of Reading and could be used to finance exterior or interior repair or improvement projects.

An unbeatable home improvement loan product could have two important impacts. Such a loan would:

1. Encourage owners of older homes to undertake improvement projects, some of which might involve the preservation of historically noteworthy features of these properties; and



2. Help lower-income homeowners avoid products offered by predatory lenders, dishonest finance companies or contractors that use deceptive advertising to promote easily-accessible loans (represented as available to homeowners with "low credit" or "no credit") that can result in a stripping of homeowner equity, a massive increase in debt, and the possibility of losing the home through foreclosure.

### **Incentives to Develop: Moderate-Rehab Developer Subsidy**

Public funding should be made available to encourage for-profit and nonprofit housing developers to rehabilitate recently-vacated single-family houses and restore them to owner-occupancy before further deterioration occurs. This incentive should include the following features.

- A subsidy, not to exceed \$20,000 per house, is made available to interested developers.
- To participate in the program, a developer must own the house to be rehabilitated, must be pre-qualified by the City, and must obtain private rehab loan financing to supplement the public subsidy (the rehab financing would be paid off by the mortgage obtained by the homebuyer following rehabilitation).
- A developer participating in the program for the first time may submit a proposal for financing the rehabilitation of one to two houses. Following successful completion of this initial rehabilitation project, a developer may submit subsequent proposals to obtain financing for rehab packages of up to ten houses.
- Houses proposed for rehabilitation are subject to inspection by the City to ensure that 1) repair or replacement of at least one major system is required (houses in “move-in” condition would not be eligible for the program), 2) the house can be rehabilitated with the subsidy/rehab loan combination available to the developer, and 3) the house is located on a stable block.
- The program has sufficient funding to remain open on a year-round basis.
- All houses rehabilitated with financing made available through the program must be sold for owner-occupancy to buyers that have successfully completed housing counseling provided by a City-approved counseling agency.



A moderate-rehab subsidy program could attract developers to the vacant houses in the city that are easiest to rehabilitate at low cost. Maintaining this program on a year-round basis would ensure that developers have the ability to take advantage of current opportunities, rather than being required to wait months for the next opportunity to respond to a Request For Proposals. A program of this type could help current developers increase their capacity and could attract new developers to the city.

### **A Large-Scale Market-Rate Housing Venture**

The City should identify an attractive site in a strong neighborhood real estate market where new construction sales housing can be developed within eighteen months. This housing could be mixed-income in character, with some units priced to be affordable to low- and moderate-income homebuyers, but the majority of units developed should be priced



ambitiously to attract middle-income buyers to Reading. In order to support an ambitious pricing approach, the venture's location and amenities need to be competitive with those associated with comparably-priced housing development elsewhere in the region. Local leaders should work together to organize this venture an economic development priority for Reading.

### **City-County Collaboration**

To support these vacant property reclamation and development strategies, the relationship between City of Reading and County of Berks agencies needs to be strengthened and better coordinated.

- The County should determine how best to provide appropriate City agency staff with Internet access to County real estate records.
- The County and City should determine how best to overlay, share, and evaluate City Police Department data on criminal activity with City and County data on property vacancy and housing code violations, so that this interrelated information can be reviewed and used as a guide for coordinated enforcement actions.

- The City should consult with the County as it develops a citywide housing inspection plan, through which every property in Reading is inspected periodically and financing is made available to owners in need of funds to support the cost of code-related repairs.
- The City, with the County's support, should work with a local bank to apply for Federal Home Loan Bank funding to finance self-amortizing loans to repair homes owned and occupied by elderly people (one local bank has already offered to participate in such an initiative).
- As a longer-term goal, the County and City should explore ways to share funding, staff, and other resources in order to establish a more cost effective approach for administering public safety, code enforcement, taxation, and other public-sector responsibilities that are high priorities for both County and City government.

## VI. Related Priorities for Reading



The implementation of a successful approach for addressing vacant property issues in Reading will substantially benefit the economy of the city and its neighborhoods—but more than effective vacant property reinvestment strategies are needed to decisively improve Reading’s economic development potential. Other issues that are currently being addressed as top city priorities, or that need to be addressed as such during the coming months, include the following.

1. The mobilization of available resources to reduce crime and the perception of crime in the city and its neighborhoods;
2. The organization and implementation of a comprehensive downtown plan designed to increase business activity, establish the downtown area as an attractive nighttime destination, and eventually stimulate conversion of some older properties into market-rate housing; and
3. The development of a top-quality elementary school—either a charter school or a public school under public/private management—in a Reading neighborhood.

If local and regional leaders take ownership of these major challenges and work with civic and community interests to implement the proposals described in this report, extraordinary benefits can be generated for Reading’s downtown, neighborhoods, and the city and region as a whole by the end of this decade.

# Acknowledgments

Thanks are due to many people who supported the completion of this project in a variety of ways.

Mayor Thomas M. McMahon invited the Fels Institute of Government to undertake the project and obtained the funding needed to begin survey work in April. The project budget was supported by matching funds committed by the Commonwealth of Pennsylvania Department of Community and Economic Development (DCED) and the County of Berks. At DCED, Ken Klothen, Executive Director, Governor's Center for Local Government Services, and Scott Hoh, Local Government Policy Manager, secured the state funding commitment and provided overall guidance for the project. Berks County Commissioners Judith L. Schwank, Chair, Thomas W. Gajewski, Sr., and Mark C. Scott, Esquire authorized county funding for the project and contributed insights about the issue of property vacancy in Reading. Through the Commonwealth of Pennsylvania Office of Housing and Community Revitalization, Larry Segal, Director, and Jeri Stumpf, Deputy Director, provided valuable information and advice. Kenneth L. Pick, Berks County Director of Community Development, handled County/City coordination issues and also served as a source of information and suggestions.

Both Mayor McMahon and the members of the Housing Task Force appointed by him maintained communication with me throughout the project completion period, met with me on several occasions, and delivered comments, personal perspectives, and constructive criticisms that substantially improved the quality of the project and increased its relevance to the City of Reading. The Chair of the Housing Task Force is S. Henry Lessig. Task Force members include Barry E. Miller; Thomas C. Brogan, Ph.D., Professor of Political Science, Albright College; William Vitale, Principal, Design Works Architects; and Jim Eby, Project Manager, The Community Builders. Interim Managing Director Eric W. Jenkins assisted with project start-up activities. Ginny Hand, Executive Assistant to the Mayor, facilitated meetings with Mayor McMahon, the review of information generated by the Fels Institute as the project was completed, and the acquisition of information and documentation from municipal agencies and officials.

In City Hall, substantial support for the completion of the vacancy inventory was provided by Eric J. Galosi, MSW, Housing and Neighborhood Development Division Manager. Ian Chapman, Geographic Information Systems Analyst, produced the maps that appear in this report and was a source of other useful information and advice. City Planner Karl Graybill provided departmental records and other information needed as reference material for this report. Adam Mukerji, Director of Community Development, made available extensive information about municipal policies and programming and provided valuable insights and advice on policy and implementation.

issues. Jane Meeks, Solid Waste Coordinator and Environmentalist for the City's Public Works Department, reviewed the vacancy inventory, compared the inventory results with her departmental records, and discussed related issues with me at length.

Information, comments, and advice on vacant property, economic development, land conservation, and other issues were obtained from several people with whom I met during the period leading up to the completion of this report. These people include Dick Ehst, Executive Vice President and Managing Director, Sovereign Bank; Marilyn Hedge, Vice President, Wachovia Corporation; Richard A. Kratz, President, Reading Area Community College; Karen A. Miller, Executive Director, Pennsylvania Economy League, Inc., State Office; Ronald E. Miller, AICP, Executive Director, Neighborhood Housing Services of Reading; Verlin S. Renner, Jr. and Kimberly J. Murphy, the outgoing and incoming Executive Directors, respectively, of the Berks County Conservancy; Brian Whitman, St. Joseph Medical Center; and Pamela M. Woodell, Vice President and Community Development Officer, Sovereign Bank.

CEOs for Cities has supported Fels Institute of Government activities associated with vacant property reclamation issues, and the CEOs for Cities-sponsored study described in Section I of this report provided an invaluable context for viewing Reading's current situation and future prospects. For CEOs for Cities, James Davitt Rooney, Director of Policy and Associate Director, has been an ongoing supporter of related Fels Institute activities.

During the completion of this report, my friend Joanne Barnes Jackson provided many valuable comments and insights, particularly with regard to the issue of retaining and attracting middle-income residents to Reading's neighborhoods.

Joy Scott of Anne Hayes Design organized the format of this report, prepared the report for publication, and contributed many helpful suggestions that substantially improved the quality of the final product.

While I very much appreciate the assistance and support received from these individuals and others, final responsibility for the content of this report is mine. I hope that this document will be useful in supporting reinvestment activities in Reading during the coming months and years.

John Kromer



The Fels Institute of Government, part of the University of Pennsylvania's School of Arts and Sciences, provides education for public leadership positions in city, state and federal agencies, elective politics, nonprofit organizations, and private firms with close connections to the public sector. The Fels Institute's Master of Government Administration degree program enrolls both full-time and executive students. Five-course credit certificates are offered in Public Finance and Nonprofit Administration.

More information about the Fels Institute of Government is available at [www.fels.upenn.edu](http://www.fels.upenn.edu).

John Kromer, Senior Consultant at the Fels Institute of Government, assists government, nonprofit, and private clients in addressing policymaking, strategic planning, and program implementation issues associated with neighborhood reinvestment in large and small cities. Director of Housing for the City of Philadelphia from 1992 to 2001, Mr. Kromer is the author of *Neighborhood Recovery: Reinvestment Policy for the New Hometown* (Rutgers University Press).

Mr. Kromer initiated a statewide conference on "Vacant Property in Pennsylvania Cities and Towns," held in December 2002 under the cosponsorship of the Fels Institute of Government and 10,000 Friends of Pennsylvania. Through subsequent collaboration between the Fels Institute and the Housing Alliance of Pennsylvania, a second annual statewide conference was held in December 2003, and a third has been scheduled for December 7, 2004.

For more information, see [www.neighborhoodrecovery.com](http://www.neighborhoodrecovery.com) or contact John Kromer at [jkromer@sas.upenn.edu](mailto:jkromer@sas.upenn.edu).



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